

advantage for either the incumbent local exchange carriers or competitive carriers?

See response to Question 49.

D. Benchmark Cost Model (BCM)

- 56. *How do the book costs of incumbent local exchange carriers compare with the calculated proxy costs of the Benchmark Cost Model (BCM) for the same areas?***

To create incentives to efficiently provide service, the proxy costs used to calculate universal service support should be the costs of providing service using the most efficient technologies and operations. Thus, it is unnecessary and inappropriate to compare those proxy costs with the embedded costs of incumbent carriers.

- 57. *Should the BCM be modified to include non-wireline services? If wireless technology proves less costly than wireline facilities, should projected costs be capped at the level predicted for use of wireless technology?***

The BCM should be robust enough to accommodate any feasible technology that might be used for local service. If any feasible technology is shown to be lower than the costs used by the incumbent, the projected costs should be capped at the lower level in order to create efficiency incentives.

variable for remote areas not accessible by road. What is the feasibility and the advisability of incorporating these changes into the BCM?

The BCM should include the costs of all feasible technologies, but the details of how such technologies are incorporated should be addressed by an industry forum as described in response to Question 35.

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- 60. *The National Cable Television Association proposed a number of modification to the BCM related to switching cost, fill factors, digital loop carrier subscriber equipment, penetration assumptions, deployment of fiber versus copper technology assumptions, and service area interface costs. Which, if any, of these changes would be feasible and advisable to incorporate into the BCM?***

See response to questions 59 and more generally, questions 1-3.

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- 61. *Should the support calculated using the Benchmark Cost Model also reflect subscriber income levels, as suggested by the Puerto Rico Telephone Company in its comments?***

See response to Questions 1-3.

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- 62. *The BCM appears to compare unseparated costs, calculated using a proxy methodology, with a nationwide local benchmark rate. Does use of the BCM suggest that the costs calculated by the model would be recovered only through services included in the benchmark rate? Does the BCM require changes to existing separations and access charge rules? Is the model designed to change as those rules are changed? Does the***

comparison of model costs with a local rate affordability benchmark create an opportunity for over-recovery from universal service support mechanisms?

The BCM, modified to incorporate the costs associated with all feasible technologies, is an appropriate mechanism for developing the unseparated costs of providing service. It is not an appropriate methodology for determining the benchmark rate, nor does it present any implications for separations. Certainly, firms that receive federal universal service support based on a proxy cost model might over-recover, but many firms may experience a reduction in federal revenues. The purpose of universal service support should not be to develop mechanisms that assure recovery of any particular revenue requirement (state or interstate), but rather, should focus on providing support to low income customers and customers who live in high-cost service areas.

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- 63. *Is it feasible and/or advisable to integrate the grid cell structure used in the Cost Proxy Model (CPM) proposed by Pacific Telesis into the BCM for identifying terrain and population in areas where population density is low?***

MFS has no information that is responsive to this question.

E. Cost Proxy Model Proposed by Pacific Telesis

- 64. Can the grid cell structure used in the CPM reasonably identify population distribution in sparsely-populated areas?**

MFS has no information that is responsive to this question.

- 65. Can the CPM be modified to identify terrain and soil type by grid cell?**

MFS has no information that is responsive to this question.

- 66. Can the CPM be used on a nationwide basis to estimate the cost of providing basic residential service?**

MFS has no information that is responsive to this question.

- 67. Using the CPM, what costs would be calculated by Census Block Group and by wire center for serving a rural, high-cost state (e.g., Arkansas)?**

MFS has no information that is responsive to this question.

- 68. Is the CPM a self-contained model, or does it rely on other models, and if so, to what extent?**

MFS has no information that is responsive to this question.

IV. SLC/CCLC

- 69. *If a portion of the CCLC charge represents a subsidy to support universal service, what is the total amount of the subsidy? Please provide supporting evidence to substantiate such estimates. Supporting evidence should indicate the cost methodology used to estimate the magnitude of the subsidy (e.g., long-run incremental, short-run incremental, fully-distributed).***

Certainly, the carrier common line ("CCL") charge exceeds the level of charges that would persist in a competitive environment. At a basic level, CCL charges are usage sensitive charges levied on long distance carriers to cover non-traffic sensitive ("NTS") loop costs that do not vary by usage.^{28/} Thus, loop costs grow as subscribers are added to the incumbent carrier's network, yet CCL revenues grow as long distance usage grows. Absent continual adjustment of the CCL charge, this mismatch of costs and revenues has created a windfall or subsidy for incumbent providers. However, there is no evidence that any of the revenues collected from CCL charges are earmarked for universal service support. CCL revenues are simply general revenues that incumbent local exchange carriers can use in any way they wish. In a more competitive environment, incumbents may not be able to maintain these charges. See response to Question 70.

^{28/} Universal Service Notice at ¶¶ 112-115.

58. *What are the advantages and disadvantages of using a wire center instead of a Census Block Group as the appropriate geographic area in projecting costs?*

Wire centers should not be used as the basis for developing proxy costs in a competitive environment. A substantial amount of non-proprietary information relevant to proxy costs and universal service is available at a census block group level, including population statistics, terrain characteristics, and income data. Such data are not readily available on a wire center basis, but would have to be custom developed if wire centers were used to estimate proxy costs. Further, a system based on existing wire centers is inexorably biased in favor of incumbents. As local service competition develops, there will be more than one competitor and more than one wire center serving a particular area. This cannot be accommodated in a wire-center based proxy cost model. Also, as local service competition develops, the boundaries of competitors' wire centers will not be the same.^{27/}

59. *The Maine PUC and several other State commissions proposed inclusion in the BCM of the costs of connecting exchanges to the public switched network through the use of microwave, trunk, or satellite technologies. Those commenters also proposed the use of additional extra-high-cost*

^{27/} The Commission already has reached this conclusion in its Interconnection proceeding (¶¶ 96-93) concerning CMRS versus landline exchange areas. The concern will be compounded as cable television and power companies enter the market with their non-coincident franchise areas.

70. *If a portion of the CCL charge represents a contribution to recovery of loop costs, please identify and discuss alternatives to the CCL charge for recovery of those costs from all interstate telecommunications service providers (e.g., bulk billing, flat rate/per-line charge).*

Broadly speaking, the interstate CCL charge was residually set based on the interstate revenue requirements associated with the NTS costs that were not recovered through the subscriber line charge ("SLC"). Intrastate CCL charges are not typically set using the same methodology, but often are just the per line charge necessary to recover the intrastate allocation of NTS costs. Reform proposals include: (1) recovering NTS costs entirely from end-users; (2) recovering the CCL portion of NTS costs from long distance carriers in the form of flat-rate charges rather than per minute charges; and, (3) capping the CCL portion of NTS costs and allowing it to grow only as loops are added and annually reducing the per minute CCL charge. Recovering NTS costs from end-users is the most direct, economically sensible solution since end-users' subscription to telephone service causes those costs to be incurred and end-user customers ultimately pay those costs either directly in the form of local service charges or indirectly as inflated long distance rates. Historically, however, the transition to explicit end-user paid NTS costs has been politically difficult. Plans that propose to recover the CCL portion of NTS costs from long distance carriers in the form of flat rate charges are often schemes to guarantee incumbent carriers' CCL revenues, and properly, should be rejected. The best option is to cap CCL revenues, phase out

the CCL and, as necessary, increase the subscriber line charge. If support is based on loop costs as MFS suggests in order to avoid double recovery by carriers with loop costs greater than 130% of the national average, it is essential that the CCL be eliminated and NTS cost recovery transferred to end-users.

V. LOW-INCOME CONSUMERS

- 71. *Should the new universal service fund provide support for the Lifeline and Linkup programs, in order to make those subsidies technology and competitively neutral? If so should the amount of the lifeline subsidy still be tied, as it is now, to the amount of the subscriber line charge?***

Yes. See response to Questions 1-3. The amount of Lifeline support could simply be fixed at the current levels and adjusted as the Commission believes is appropriate to address the needs of low income individuals.

VI. ADMINISTRATION OF UNIVERSAL SERVICE SUPPORT

- 72. *Section 254(d) of the 1996 Act provides that the Commission may exempt carriers from contributing to the support of universal service if their contribution would be "de minimis." The conference report indicates that "[t]he conferees intend that this authority would only be used in cases where the administrative cost of collecting contributions from a carrier or carriers would exceed the contribution that carrier would otherwise have to make under the formula for contributions selected by the Commission."***

What levels of administrative costs should be expected per carrier under the various methods that have been proposed for funding (e.g., gross revenues, revenues net of payments to other carriers, retail revenues, etc.)?

In its comments, MFS recommended that for administrative ease, the Commission should exempt carriers with less than a 1% market share as it presently exempts carriers with less than a ½% market share (i.e., carriers with less than about 72,000 access lines) from contributing to the existing federal Universal Service Fund.^{29/} Because multiple carriers with different service configurations are involved, market share should be calculated based on revenues net of payments to intermediaries like the mechanism the Commission recently established in its Regulatory Fees Order.^{30/} Thus, a local exchange carrier's market share would be based on its revenues less compensation payments, interconnection payments, resale payments and payments for unbundled network elements that it makes to other telecommunications providers. A long distance carrier's market share would be based on its revenues less access payments and payments for long distance services it buys and resells.

Carriers that contribute to the universal service fund should include all carriers that are common carriers since the definition of "telecommunications services" in the

^{29/} 47 C.F.R. § 69.116(a)

^{30/} Universal Service Notice at ¶ 123 citing *Assessment and Collection of Regulatory Fees for Fiscal Year 1995: Price Cap Treatment of Regulatory Fees Imposed by Section 9 of the Act*, Report and Order, 10 FCC Rcd 13512 (1995).

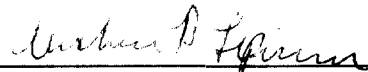
Telecommunications Act is "the offering of telecommunications for a fee directly to the public."^{31/} Providers like private network providers or Shared Tenant Services ("STS") providers do not generally offer their services to the public and should be excluded from requirements to provide universal service funding. Also, if the Commission excludes carriers with less than a 1% market share from providing universal service support, such private network providers will likely be excluded anyway. Likewise,

^{31/} 47 U.S.C. §153(51) [emphasis added].

carriers that provide a mix of public and private telecommunications services should exclude the private service revenues and costs from their revenues used to develop market shares.

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August 2, 1996

CERTIFICATE OF SERVICE

I hereby certify that on this 2nd day of August 1996, copies of the foregoing in
COMMENTS OF MFS COMMUNICATIONS COMPANY, INC.; Docket 96-45,
DA 96-1078, were served via Messenger** or First-Class Mail, U.S. postage prepaid, to
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